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23 March 1983

Thinking about the Risks in Financing
China's New Five-Year Plan

Summary

In contrast to past policies of conservative pay-as-you-go financing, China's post-Mao leadership appears to be placing heavy reliance on domestic credit to help fund the Sixth Five-Year Plan (1981-85). We expect the cost of servicing domestic budgetary debt from national bond sales and bank loans to rise substantially during the decade; without careful management, the debt servicing burden could constrain plans for more rapid economic growth in the late 1980s.

Beijing has justified credit expansion in the post-1978 years of persistent budget deficits as an inevitable consequence of its wide-ranging experiments with economic reform. Because borrowing could increase inflation and consumer unrest, we believe critics of Deng Xiaoping's reformist leadership may use any negative fiscal-monetary results to try to discredit the program of economic reform in its entirety. In our judgment, Deng's coalition is willing to take these economic and political risks because to do otherwise would undercut efforts to improve economic management.

How the Plan Will Be Financed

Although Beijing has said comparatively little about financial aspects of the new five-year plan, we can identify some of the key elements.

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S 18

- o Nearly 30 percent of capital investment in 1983 and probably in 1984-85, as well, will be financed by borrowing directly from domestic banks and indirectly from foreign lenders via drawings on foreign exchange held by the Bank of China. The remaining 70 percent will be funded about equally by appropriations from the national budget and by extrabudgetary funds held by local governments, central agencies, and individual enterprises (see Table 1). Beijing had resorted to some domestic and foreign borrowing during the Soviet-aided First Five-Year Plan (1953-57), but the scale was relatively small, and all debts were paid off by 1968.
- o China's planners, using their own accounting techniques, project small budget deficits through 1985. However, using more conventional procedures -- for example, deducting domestic bond sales and foreign loans from revenues -- we estimate the deficits would be about three times larger than Chinese expectations. (see Table 2).
- o Although details are lacking on repayment schedules for domestic loans, debt servicing on domestic bonds issued during 1981-85 alone is likely to become a significant share of budget expenditures toward the end of this decade (see Table 3). Although Beijing expects budget revenues to pick up with faster economic growth in the post-1985 period, debt servicing could complicate efforts to wipe out budget deficits during that period.
- o To meet an expected excess of loans over deposits, the banking system apparently will be called on to increase the money supply by more than 10 percent per year through 1985. Projected currency expansion at that rate is about double the rates of annual increases in consumer goods production and the general level of economic activity planned for that period. (see Table 4). In our view, this will aggravate the already strong inflationary pressures that began to build in 1979 (see Table 5).

Potential Risks

China's recent release of revised data on developments of the past now makes it clear that budget deficits, overexpansion of credit, and excessive printing of new currency have occurred before and were especially serious during the Great Leap Forward of the late 1950s. Beijing's post-Mao reformers obviously want to avoid at all costs a situation as grave as that. Still, the new strategy of augmenting budget allocations with bank credit to finance economic growth carries with it potential hazards that could jeopardize even the modest growth goals of the Sixth Five-Year Plan and expose the advocates of this approach to criticism.

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Credit expansion is an integral part of reformist efforts to distribute funds more efficiently by systematically displacing interest-free budget allocations with interest-bearing bank loans. Nonetheless, we are skeptical that Chinese bankers can manage their new responsibilities as deftly as Beijing anticipates. Banking agencies still lack the staff, skills, and administrative clout needed to assess creditworthiness and to resist pressure from enterprises for unjustified loans for working capital and investment funds. In our view, Beijing may find that restraining credit expansion is even more difficult than controlling budget expenditures and deficits.

Expansion of the money supply, needed in part to accommodate rising transactions requirements for currency generated by economic reforms, is likely to put heavy upward pressure on prices. We believe the government could face a choice between hiking already high interest rates on personal savings deposits and domestic bonds or resorting to coercive tactics to soak up excess consumer purchasing power.

Even if the government is successful in holding official retail price increases to perhaps only 2-3 percent per year, chances are that consumer discontent over declining real incomes could force concessions that might:

- o Increase wages in excess of gains in labor productivity.
- o Protect the erosion of peasant incomes through further increases in state purchase prices of agricultural raw materials.

This would lead almost certainly to further increases in retail prices to cover the resulting higher costs of production. During a period in which Beijing intends to curb already huge price, wage, and other budget-financed subsidies, it might find instead that some subsidies must be increased.

Repayments on domestic debt (government bonds, loans to finance budget deficits in 1979-80 and possibly also in 1983-85, and interest on savings deposits) could become substantial in the late 1980s and early 1990s -- a time when Beijing expects faster economic growth. This could narrow the government's investment options and make even more questionable the long-term goal of quadrupling national output by the end of the century.

Some Implications

Despite fragmentary data for analysis -- as the gaps in the appended statistical tables demonstrate -- we believe that Beijing's break with traditionally conservative financial practices has been and is likely to remain a controversial issue among Chinese policymakers and their advisers.

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- o A review of Chinese media treatment of the issue reveals that the question of credit and currency expansion has been a persistent topic for debate in professional economic journals ever since the PRC disclosed the largest budget deficit in its history in 1979.
- o The near absence of discussion of credit in the lengthy published excerpts from the new five-year plan also suggests that the issue is controversial. In contrast to otherwise rich data on specific targets for 1985, only one sentence in the excerpts addresses the sources and uses of bank credit, and no details at all have so far been provided on the sources of budget revenue (even though separate sections of the plan are reportedly devoted to these topics).
- o Nor is there any discussion of how the small deficits planned for 1983-85 are to be financed.

Finally, at the National People's Congress held in 1980, the 1979 budget deficit was the subject of critical commentary by many delegates. Even some members of Deng Xiaoping's coalition leadership voiced alarm. Similar criticisms were probably expressed during the NPC sessions of 1981 and 1982.

This analysis leads us to believe critics of credit financing are likely to seize on every negative financial development that might arise in an effort to try to discredit the entire program of economic reform. Proponents of credit financing seem well aware of such prospects, however, and in our judgment their willingness to take on the risks is a measure of their conviction that such measures are essential to ridding the economy of gross inefficiencies in the way capital and materials are allocated. In the past four years, Deng and economic reformers such as Premier Zhao Ziyang have invested a great deal of political capital in the reforms. They apparently believe they stand to lose as much by retreating as by moving ahead.

25X1

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Table 1

China: Financing of Capital Investment in the
Economic Plan for 1983^a

Investment in new fixed assets	Percent of Total	
	100.0	67.9
Financed by:		
Budget appropriations	51.1	
Extrabudgetary funds	21.1	
Credit expansion	27.4	
Domestic bank loans	16.8	
Foreign loans	10.7	
Investment in renovating existing fixed assets	100.0	32.1
Financed by:		
Budget appropriations	9.6	
Extrabudgetary funds	59.6	
Credit expansion	30.8	
Loans from the Construction Bank	8.3	
Other loans	22.5	
Total investment in fixed assets	100.0	100.0
Financed by:		
Budget appropriations	38.0	
Extrabudgetary funds	33.5	
Credit expansion	28.5	

a. Source: Appendix Table A.1. Components may not sum to totals because of rounding.

Table 2

China: State Budget Accounts in Alternative Formats, 1979-85^a

	1979	1980	1981	Est. 1982	Plan 1983	Plan 1984	Plan 1985
A. In the Chinese format							
Total expenditures	127.39	121.27	111.50	113.69	126.2	128.0	130.4
Total revenues	110.33	108.52	108.95	110.69	123.2	125.0	127.4
Deficit	17.06	12.75	2.55	3.00	3.0	3.0	3.0
B. In an alternative format^b							
Total expenditures	127.39	121.27	111.50	113.69	126.2	128.0	130.4
Total revenues	106.69	104.22	(103.94)	(104.49)	(116.8)	(119.8)	(122.2)
Deficit	20.70	17.05	(7.56)	(9.20)	(9.4)	(8.2)	(8.2)
Financed by:							
Use of budget deposits							
in banks	8.04	0	0	0	0	0	0
Loans from domestic banks	9.02	8.00	0	0	0	0	0
Sale of domestic bonds	0	4.75	(0.25)	4.20	4.0	(4.0)	(4.0)
Foreign loans	3.64	4.30	7.31	(5.00)	(5.4)	(4.2)	(4.2)
Total	20.70	17.05	(7.56)	(9.20)	(9.4)	(8.2)	(8.2)

- a. Source: Appendix Tables A.2 - A.4. Figures in parentheses are our provisional estimates.
b. This format is merely illustrative.

Table 3

China: Estimated Schedule of Repayments of Principal and Interest on Domestic Bonds, 1987-95

	Million current yuan								
	1987	1988	1989	1990	1991	1992	1993	1994	1995
1981 bond issue ^a	1,208	1,247	1,286	1,325	1,364				
1982 bond issue ^b		1,088	1,136	1,184	1,232	1,280			
1983 bond issue ^b			1,088	1,136	1,184	1,232	1,280		
1984 bond issue ^b				1,088	1,136	1,184	1,232	1,280	
1985 bond issue ^b					1,088	1,136	1,184	1,232	1,280
Total annual repayments	1,208	2,335	3,510	3,645	6,004	4,832	3,696	2,512	1,280

a. In 1981, the Ministry of Finance issued domestic bonds totaling 4.87 billion yuan. They were sold almost entirely to local governments, state enterprises, and central party, government, and military agencies. The bonds, paying 4 percent simple interest per annum, are repayable beginning in the sixth year after issuance. The bond issue is scheduled to be redeemed in 10 years, with 20 percent per year redeemed in the period 1987-91.

b. In 1982 and 1983, the ministry planned to issue 4 billion yuan in bonds each year, with amounts issued annually thereafter depending on financial needs. In contrast to the 1981 bonds, those issued in 1982-83 were to be sold to both state agencies and individuals, the former paying 4 percent simple interest and the latter 8 percent. The schedule of repayments of principal and interest was calculated on the assumption that bond sales after 1981 totalled 4 billion yuan per year, with half purchased by state agencies at 4 percent and half purchased by individuals at 8 percent.

Table 4

China: Some Key Value Targets and Growth Rates in the Sixth Five-Year Plan

	<u>Billion current yuan</u>		<u>Growth rate (%)^a</u>
	<u>1980</u>	<u>1985</u>	
Net material product	366.7	455	4.4
State budget expenditures	121.2	130.4	1.5
State budget revenues	108.5	127.4	3.3
Banks' uses of funds	262.4	479.4	12.8
Banks' sources of funds ^b	227.8	420.3	13.0
Currency in circulation	34.6	59.1	11.3
Retail sales	207.1	290.0	7.0
Gross value of production in light industry ^c	233.3	299.0	5.1

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- a. Average annual rate of increase, 1981-85.
 b. Excluding currency in circulation.
 c. In constant 1980 prices.

Table 5

China: Direct and Indirect Indicators of Open and Repressed Inflation, 1978-85^a

Indicator	Type of measurement	1978	1979	1980	1981	Est. 1982	1979-81	Plan 1981-85
Official price indices								
Retail price index	annual % increase	0.7	2.0	6.0	2.4	(2.1)	3.4	(2-3)
Cost-of-living index	annual % increase	0.7	1.9	7.5	2.5		3.9	
Personal savings deposits	annual % increase	16.0	33.4	42.2	31.1		35.5	
Social purchasing power	annual % increase	12.2	23.7	21.0	11.0	(13.3)	18.4	(7.8)
Retail sales	annual % increase	8.8	15.5	18.9	9.8	8.9	14.7	
Currency in circulation	annual % increase	8.5	26.3	29.3	14.5	(12.0)		(11.3)
Retail sales/currency in circulation ^b	ratio	6.8	5.8	5.2	5.4	5.2		

a. Source: Appendix Table A.8.

b. Chinese planners generally consider ratios of less than about 7 to be indicative of inflation.

Appendix: Detailed Statistical Tables

Explanatory note: Data in the tables were derived from a wide variety of official and semiofficial Chinese sources.

Appendix Table A.1

China: Financing of Capital Investment in the Sixth Five-Year Plan

	Billion current yuan							
	1980	1981	Est. 1982	Plan 1983	Plan 1984	Plan 1985	Total 1981-83	Total 1981-85
Investment in new fixed assets	53.94	44.3	52.5	50.7	----	82.5---	147.5	230.0
Financed by:								
Budget appropriations	28.06	18.0	19.6	26.1 ^a	----	54.5---	63.7	118.2
Extrabudgetary funds	16.39	14.1	17.8	10.7			42.6	
Credit expansion	9.49	12.2	15.1	13.9			41.2	
Domestic bank loans	4.12	(4.9)	(10.1)	8.5			23.5	
Foreign loans	5.37	(7.3)	(5.0)	5.4	-----	8.5---	17.7	26.2
Investment in renovating fixed assets		22.5	26.5	24.0	----	57.0---	73.0	130.0
Financed by:								
Budget appropriations				2.3				13.1
Extrabudgetary funds				14.3				78.4 ^b
Credit expansion				7.4				38.5 ^c
Loans from Construction Bank			1.2	2.0				
Other				5.4				
Total investment in fixed assets		66.8	79.0	74.7	---	139.5---	220.5	360.0
Financed by:								
Budget appropriations				28.4				
Extrabudgetary funds				25.0				
Credit expansion				21.3				

a. Includes direct appropriations of 19.63 billion yuan and 6.5 billion yuan for investment in key energy and communications projects.

b. Includes foreign investment.

c. Consists of domestic bank loans.

Appendix Table A.2
China: State Budget Accounts, 1977-85

	Million current yuan								
	1977	1978	1979	1980	1981	Est. 1982	Plan 1983	Plan 1984	Plan 1985
Revenues^a									
Taxes	46,827	51,928	53,782	57,170	62,989	67,950	72,970		
Income from enterprises	40,235	57,199	49,290	43,520	35,368	31,100	32,390		
Other revenue	323	2,833	3,616	3,530	3,281	(6,840)	(12,440)		
Revenue from domestic funds	87,385	111,960	106,688	104,220	101,638	(105,690)	(117,800)		
Foreign loans	61	151	3,639	4,300	7,308	(5,000)	5,400		
Total revenue	87,446	112,112	110,327	108,520	108,946	110,690	123,200	125,000	127,400
Expenditures^a									
Capital construction appropriations	30,088	45,192	44,380	34,640	25,755	25,270	30,780		
Enterprise modernization	3,945	6,324	7,202	8,050	6,530	6,070	6,570		
Technical renovation	1,710	3,777	4,364						
New product development	2,235	2,547	2,838						
Geological survey	1,726	2,015	2,167						
Working capital and credit funds	6,568	6,660	5,206	3,670	2,284	2,300	2,250		
Aid and operating expenses for agriculture	5,068	7,695	9,011	8,210	7,368	7,650	7,750		
Operating expenses for industry, communications, and commerce	1,443	1,779	2,104						
Operating expenses for culture, education, science, and health	9,020	11,266	13,212	15,630	17,136	19,000	20,400		
National defense	14,904	16,784	22,266	19,380	16,797	17,870	17,870		
Administration	4,332	4,909	5,687	6,680	7,088	8,000	8,500		
Other (unspecified)	7,259	8,471	9,065	21,380	21,231				
Expenditures from domestic funds	84,353	111,095	120,300	113,970	104,189	108,690	121,200		
Foreign loans used for capital construction	Nil	Nil	7,090	7,300	7,308	5,000	5,000		
Total expenditure	84,353	111,095	127,394	121,270	111,497	113,690	126,200	128,000	130,400
Balance									
Domestic accounts	3,032	865	-13,612	-9,750	-2,551	-3,000	-3,400		
Total accounts	3,093	1,016	-17,067	-12,750	-2,551	-3,000	-3,000	-3,000	-3,000
Proceeds from deficit financing:									
Use of budgetary bank deposits ^b	--	--	8,044	--	(2,301)	(-1,200)	(-1,000)	(-1,000)	(-1,000)
Overdraft from the People's Bank	--	--	9,023	8,000	--	--	--	--	--
Sale of domestic bonds	--	--	--	4,750	(250)	4,200	4,000	(4,000)	(4,000)

a. For a more detailed breakdown of revenues and expenditures for 1981-85, See Appendix Tables 3 and 4.

b. Positive figures indicate a withdrawal of Ministry of Finance deposits with the People's Bank of China; negative figures indicate additions to deposits.

Appendix Table A.3

China: Draft and Final State Budget Revenues, 1981-83

Revenue	1981		Billion current yuan		
	Draft	Final	Draft	1982 Prel. Est.	1983 Draft
Taxes	58.05	62.99	64.60	67.95	72.97
Income from enterprises	37.37	35.37	34.41	31.10	32.39
Other revenue	2.24	3.28	2.44	(2.44)	2.44
Enterprise depreciation funds	(210) ^b		2.20		2.20
Other (unspecified)	(0.14)		0.24		(0.24)
Subtotal	97.66	101.64	101.45	(101.49) ^d	107.80
Energy and communications fund ^a	0	0	0	0	6.00
Revenue excluding borrowing	97.66	101.64	101.45	(101.49)	113.80
Borrowing	8.00	(7.56)	9.00	(9.20)	9.40
Domestic bonds	0	(0.25) ^c	4.00	4.20	4.00
Foreign loans	8.00	7.31	5.00	(5.00)	5.40
Total revenue	105.66	108.95	110.45	110.69	123.20
Revenue from domestic funds	97.66	101.64	105.45	(105.69)	117.80
Revenue from foreign loans	8.00	7.31	5.00	(5.00)	5.40

a. This is a new revenue source established in 1983 and scheduled to be maintained throughout the remaining years of the Sixth Five-Year Plan at about 10 percent of existing extrabudgetary funds held by local governments, central agencies, and individual enterprises. Extrabudgetary funds were reported to total about 57 billion yuan in 1981.

b. The draft budget for 1981 was revised several times. In an early version, reported to the National People's Congress on 30 August 1980, revenue from enterprise depreciation funds was planned at 2.10 billion yuan -- slightly lower than the 2.20 billion yuan figure given in the draft budgets for 1979, 1980, 1982, and 1983.

c. This is our provisional estimate. For the first time since the 1950s, the PRC in 1981 resumed the practice of issuing national bonds to help finance budget deficits and absorb excess credit and currency in the economy (see the footnotes to Text Table 3). Bonds sales in 1981 totaled 4.87 billion yuan, of which 4.75 billion yuan was used to help offset the 1980 budget deficit (see Appendix Table A.2). Bond sales in 1982 totaled 4.33 billion yuan, of which 4.20 billion yuan was listed as a revenue item in the 1982 state budget. The excess of bond sales over proceeds used in the budget totals 250 million yuan. This figure is only 10 percent of the reported budget deficit of 2.55 billion yuan in 1981, leading us to speculate that to finance the rest of the deficit the Ministry of Finance drew down its deposits with the People's Bank of China or was granted another loan (i.e. an overdraft from the bank). However, the official banking data (see Appendix Table A.5) show the ministry's deposits with the bank increasing in 1981 and no further overdrafts after 1980. We are presently unable to resolve this apparent inconsistency.

d. Finance Minister Wang Bingqian in his report last December on preliminary estimates for 1982 and the draft budget for 1983 noted that, after deducting such non-comparable factors as foreign loans and the new fund for energy and communications, revenues in 1983 are planned to exceed those of 1982 by 6.11 billion yuan, an increase of 5.8 percent.

Appendix Table A.4

China: Draft and Final State Budget Expenditures, 1981-85

	Billion current yuan						
	1981		1982		1983	1984	1985
	Draft	Final	Draft	Prel. Est.	Draft	Draft	Draft
Expenditures							
Capital construction, including							
foreign loans	32.33	33.07	29.73	30.27	36.18	---	70.48---
Direct appropriations			18.63	19.60	19.63		
Energy and communications fund	0	0	0	0	6.50		
Reserve funds			6.10	5.67	4.65		
Foreign loans	8.00	7.31	5.00	5.00	5.40		
Capital construction, excluding							
foreign loans	24.33	25.76	24.73	25.27	30.78		
Enterprise modernization	5.03	6.53	5.42	6.07	6.57		
Enterprise working capital	(2.00)	2.28	2.40	2.30	2.25		
Agriculture	7.41	7.37	7.61	7.65	7.75	---	15.93---
Science, education, health,							
and culture	15.95	17.14	18.00	19.00	20.4	---	40.16---
National defense	16.67	16.80	17.87	17.87	17.87	---	35.76---
Administration	5.97	7.09	7.80	8.00	8.50	---	17.21---
Other expenditures	(20.30)	(21.22)	(24.62)	(22.53)	(26.68)		(175.3)
Debt service on foreign loans				4.97	5.10		
Social welfare and pensions				2.40	2.40		
General reserve fund	(2.60)				2.00		
Other					(17.18)		
Total expenditures	105.66	111.50	113.45	113.69	126.20	128.0	130.0
From domestic funds	97.66	104.19	108.45	108.69	121.20		
From foreign loans	8.00	7.31	5.00	5.00	5.00		

Appendix Table A.5

China: State Bank Accounts, 1979-81

	Million current yuan		
	1979	1980	1981
I. Source of Funds			
A. Deposits	134,004	165,864	200,558
1. Enterprises	46,891	57,309	67,407
2. Treasury (Ministry of Finance)	14,868	16,202	19,494
3. Capital construction units	13,130	17,175	22,915
4. Government department and organizations	18,488	22,945	27,488
5. Urban savings deposits	20,256	28,249	35,414
6. Rural deposits	20,371	23,984	27,840
B. Accounts with international monetary institutions	--	3,427	5,405
C. Currency in circulation	26,771	34,620	39,634
D. Bank's self-owned funds	42,788	47,733	49,705
E. Bank's current-year surplus	4,945	1,972	1,722
F. Other	7,752	8,810	7,762
Total sources of funds	216,260	262,426	304,786
II. Uses of Funds			
A. Loans	203,963	241,430	276,467
1. Industrial production enterprises	36,309	43,158	50,885
2. Industrial supply and marketing enterprises and material supply departments	24,212	23,603	24,124
3. Commerce	123,225	143,702	163,913
4. Short and medium term loans for buying equipment	792	5,550	8,375
5. Industrial and commercial loans to urban collective and individual enterprises	5,751	7,829	9,915
6. Partial prepayments for advance purchases of agricultural products	698	788	739
7. State farms	686	940	1,675
8. Rural communes and production brigades	12,290	15,860	16,841
B. Gold purchases	1,216	1,216	1,204
C. Foreign exchange purchases	2,058	-847	6,218
D. Balance with the International Monetary Fund	--	3,604	3,874
E. Credit advanced to the Ministry of Finance	9,023	17,023	17,023
Total uses of funds	216,260	262,426	304,786

Appendix Table A.6

China: Loans and Other Uses of Funds of the State Bank, 1977-81

		Million current yuan (year-end)				
		1977	1978	1979	1980	1981
<u>Loans</u>						
A. Enterprise working capital			173,450	189,497	218,292	248,837
Commercial enterprises	99,700		111,770	123,225	143,702	163,913
Industrial enterprises			61,680	66,272	74,590	84,924
B. Short and medium loans for purchasing equipment	0	0	792	5,550	8,375	
C. Agriculture			11,550	13,674	17,588	19,225
Subtotal	166,300	185,000	203,963	241,430	276,467	
D. Bank loans to the Ministry of Finance (overdrafts)	0	0	9,023	17,023	17,023	
<u>Total loans</u>	<u>166,300</u>	<u>185,000</u>	<u>212,986</u>	<u>258,453</u>	<u>293,490</u>	
<u>Other uses of funds</u>						
A. Purchases of gold			1,216	1,216	1,204	
B. Purchases of foreign exchange			2,058	-847	6,218	
C. Balances with the IMF			.	3,604	3,874	
Subtotal			3,274	3,973	11,296	
<u>Total uses of funds</u>			<u>216,260</u>	<u>262,426</u>	<u>304,786</u>	

Appendix Table A.7
China: Deposits and Other Sources of Funds of the State Bank, 1977-81

	Million current yuan (year-end)				
	1977	1978	1979	1980	1981
Deposits					
A. Financial deposits	40,100	(45,680)	(46,486)	(56,322)	(69,897)
Ministry of Finance		18,740	14,868	16,202	19,494
Capital construction units		10,960	13,130	17,175	22,915
Government agencies		15,980	18,488	22,945	27,488
B. Enterprise deposits	38,500	36,850	46,891	57,309	67,407
C. Other domestic deposits	27,800	30,900	(40,627)	(52,233)	(63,254)
Urban savings deposits	13,510	15,490	20,256	28,249	35,414
Rural deposits	(14,290)	(15,410)	20,371	23,984	27,840
Savings deposits of rural commune members	4,650	5,570	7,843	11,703	16,955
Other rural deposits	(9,640)	(9,840)	(12,528)	(12,281)	(10,885)
Total domestic deposits	106,400	113,430	134,004	165,864	200,558
D. Accounts with the World Bank and IMF				3,427	5,405
Other sources of funds					
A. Banks' working funds			42,788	47,733	49,705
Additional budget appropriations for banks' credit fund				1,275	
Banks' retained profits			4,945	1,972	1,722
B. Banks' current-year surplus			47,733	49,705	51,427
Subtotal			7,752	8,810	7,762
C. Other (unspecified)					
Other sources of funds, excluding currency in circulation			55,485	58,515	59,189
D. Currency in circulation	19,540	21,200	26,771	34,620	39,634
Total sources of funds			216,260	262,426	304,786

Appendix Table A.8

China: Direct and Indirect Indicators of Inflationary Pressure, 1978-85

	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>Est.</u> <u>1982</u>	<u>Plan</u> <u>1983</u>	<u>Plan</u> <u>1984</u>	<u>Plan</u> <u>1985</u>
Official price indices (1977=100)								
Retail price index	100.7	102.7	108.8	111.4				(120-126)
Cost-of-living index	100.7	102.6	110.3	113.1				
Personal saving deposits (billion yuan)	21.06	28.10	39.95	52.37				
Social purchasing power (billion yuan)	136.0	168.2	203.6	226.0	256.0	276.0		296
Retail sales (billion yuan) ^a	143.3	155.9	180.0	214.0	235.0	256.0		(300)
Currency in circulation (billion yuan)	21.2	26.8	34.6	39.6	(45.2)			(59.1)
Ratio of retail sales to currency in circulation	6.8	5.8	5.2	5.4	5.2			5.1

a. Including peasant sales to nonagricultural residents.